

Latinos and African Americans pay more for insurance under current system

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(Washington DC) Responding to an increasing trend of insurance companies using consumer credit scores in assessing risk and rates, Rep. Luis V. Gutierrez (D-IL) today introduced legislation that would protect consumers, especially minority citizens, who tend to have lower credit, yet who do not present an increased insurance risk because they are safe drivers. The Non-Discriminatory Use of Consumer Reports and Consumer Information Act of 2008 (H.R. 5633) is co-sponsored by House Financial Services Committee Chairman Barney Frank (D-MA) and Rep. Melvin L. Watt (D-NC).

"Insurance companies are increasingly and alarmingly using credit information contained in credit reports to determine whether and at what price to offer personal lines of property and casualty insurance," said Gutierrez. "This includes automobile and homeowners insurance. For families who are only beginning to establish credit -- including minority and immigrant communities -- this practice puts them in a difficult and unfair financial position."

"The introduction of the bill today is a step toward leveling the playing field for purchasers of personal lines of insurance such as automobile and homeowners insurance," said Rep. Watt.

"The insurance industry has been increasingly using credit information to underwrite and rate personal lines of insurance. Government studies have shown that credit scores correlate with race or ethnicity, so minorities often end up paying more for personal lines of insurance even when they are safe drivers or have never filed claims."

According to the Federal Trade Commission (FTC), all major automobile insurance companies use credit information in some capacity. While creditors use credit information to determine the likelihood that a consumer will default on an account, insurance companies generally use credit information to predict the number of claims a consumer will file and the total cost of those claims.

A July 2007 FTC report found that while credit-based insurance scores can be an effective predictor of risk, racial and ethnic minorities tend to have lower credit-based insurance scores and thus pay more for automobile insurance, with African-Americans expecting to pay about 10 percent more and Latinos 4.2 percent more in premiums if credit-based insurance scores are used.

The FTC report also found that credit-based insurance scores are a "proxy," or substitute, for race or ethnicity in three out of four lines of automobile insurance: collision, comprehensive and bodily injury.

This bill would prohibit the use of credit information contained in consumer reports for insurance purposes when there is a government finding of discrimination from the use of this information, or when credit information represents a proxy or proxy effect for race or ethnicity.

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